

~~SECRET~~

~~CONFIDENTIAL~~

COPY NO.
OCI NO. 6091/60

29 December 1960

CURRENT INTELLIGENCE WEEKLY SUMMARY



DOCUMENT NO. 7
NO CHANGE IN CLASS. II
I. DECLASSIFIED
CLASS. CHANGED TO: TS S 61996
NEXT REVIEW DATE: _____
AUTH: HR 7-582
DATE: 6-5-82 REVIEWER: _____

25X1

CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

~~CONFIDENTIAL~~

~~SECRET~~

25X1

DIA, State Department review(s) completed.

30-228519/2

THIS MATERIAL CONTAINS INFORMATION AFFECT-
ING THE NATIONAL DEFENSE OF THE UNITED STATES
WITHIN THE MEANING OF THE ESPIONAGE LAWS,
TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMIS-
SION OR REVELATION OF WHICH IN ANY MANNER TO
AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly Summary has been prepared primarily for the internal use of the Central Intelligence Agency. It does not represent a complete coverage of all current situations. Comments and conclusions represent the immediate appraisal of the Office of Current Intelligence.

Page Denied

Next 4 Page(s) In Document Denied

25X1

25X1

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

PART I**OF IMMEDIATE INTEREST****EAST-WEST RELATIONS**

Foreign Minister Gromyko's report to the Supreme Soviet on 23 December--the first authoritative foreign policy statement since the Moscow conference of Communist leaders--provides further evidence that the USSR intends to combine a bid for top-level negotiations with the West with a vigorous prosecution of its "anticolonial" line. His remarks on the Congo, Laos, Algeria, and Cuba, while containing nothing new, were framed in the militant tone of the Moscow declaration.

Unlike the sections of the Moscow declaration excoriating the US, however, Gromyko limited his criticism to specific situations--such as the U-2, the summit, and NATO armaments--and carefully avoided any general attack on US "imperialism." Describing current US-Soviet relations as "reduced to nothing," Gromyko quoted from Khrushchev's telegram to President-elect Kennedy and declared, "The Soviet Government expressed the wish that, with the entry into office of the new US President, the present unfavorable atmosphere in relations between our countries will be cleared up." Gromyko indicated that this would improve the possibility of agreement on those international problems which still remain unsolved and stressed that he was "empowered to state" that the USSR stood ready to contribute to the improvement of Soviet-American relations.

Among the broader East-West issues, Gromyko discussed only disarmament and the German and Berlin questions. He of-

fered nothing new on disarmament but stressed that Khrushchev's proposal--for a special session of the UN General Assembly to discuss disarmament with the heads of government in attendance--remained Soviet policy.

Gromyko also repeated the standard position on Germany, advocating a free-city status for Berlin and a peace treaty with the two German states. He strongly attacked West German armament with NATO-controlled nuclear weapons and criticized Bonn's torpedoing of the recent trade negotiations with the USSR by injecting the Berlin question into the talks. In the first authoritative Soviet comment on the East - West German trade negotiations, Gromyko warned that failure to reach agreement could have "dangerous and unexpected" consequences.

Although Gromyko's speech was a routine performance, he did raise to a more formal level the recent private remarks by Soviet leaders on improving Soviet-US relations. In this respect, the speech was probably intended to lay the groundwork for more favorable public treatment of the US after 20 January, probably as part of a concerted campaign to initiate high-level contacts.

Although Gromyko omitted any reference to a summit meeting, his stress on a heads-of-government meeting to discuss disarmament at the US suggests that this proposal is still considered by the USSR as a vehicle for a meeting between the new

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

President and Khrushchev. In the final discussions on disarmament in the UN Political Committee on 19 December, the Soviet delegate concluded his remarks with a reminder that Khrushchev's proposal for a special session was still outstanding.

That the bid for top-level contacts will be accompanied by a militant anticolonial campaign was evident in Khrushchev's statement of 27 December commenting on the UN resolution on colonialism. He claimed credit for the successful resolution sponsored by the Afro-Asians on the grounds that the Soviet anticolonial declaration formed the "political foundation" for the UN action. Khrushchev took an aggressive line in warning that colonialism must be "exposed and destroyed" not only in Asia, Africa, and Latin America but also in the metropolitan countries themselves. Citing Algeria, the Congo, Laos, and Cuba, he called for a "stubborn struggle" and warned that if the colonial powers resisted, the "peoples will have no other choice but to sweep away in a decisive struggle all obstacles...."

In keeping with this anti-Western theme, Moscow promptly criticized the French nuclear test as a continuation of the arms race in defiance of recent UN resolutions calling for a test suspension. Moscow's comment on the first two French tests had been generally moderate, reflecting the deferential treatment of De Gaulle during the pre-summit period. Possibly with French testing in mind, Gromyko went out of his way to endorse a proposal by Ghana to create a nuclear-free zone in Africa.

Supreme Soviet Meeting

Khrushchev, who on the day before the Supreme Soviet convened appeared in public for the first time since his attack of the flu earlier in the month, attended the opening and final sessions of the Supreme Soviet but did not otherwise participate. This was the first time since December 1958 that he did not address a meeting of the Soviet. Gromyko, however, balanced Khrushchev's silence by the sycophantic terms in which he attributed Soviet successes in the foreign policy field to Khrushchev's personal leadership.

25X1

DE GAULLE'S APPROACHING REFERENDUM

The Communists and rightist parties have announced that they will oppose De Gaulle in the 8 January referendum on self-determination for Algeria,

but he seems certain to win in metropolitan France. To assure a safe margin of victory, De Gaulle is severely limiting opposition opportunities to

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

29 December 1960

campaign. In his first television talk he took as much time as the total broadcasting time (eight minutes on television and ten on radio) allotted for the entire campaign to each of the six parties the government considers entitled to use the facilities, and he is to talk again on 31 December and 6 January. Some of the most outspoken critics of his Algerian policy, including Jacques Soustelle's "National Regroupment," have been denied access to national communications media.

The government's campaign seeks to identify a "yes" vote with peace in Algeria. De Gaulle is making a strong personal plea for massive support. He has implied that he intends to undertake new negotiations with the rebels. The chief of Premier Debré's personal cabinet intimated to the US Embassy on 24 December that De Gaulle was actively seeking some new method of ending the fighting but expected that the rebel government was going to be extremely stubborn. The rebels, heartened by the UN resolution and Soviet bloc support, continue to insist that De Gaulle has no alternative to negotiating with them.

The opposition embraces both extremes and a sprinkling of center groups. The French Communist party, which normally commands 25 percent of the ballots, advocates a flat "no" vote, arguing that De Gaulle's program does not envisage direct negotiations with the rebels or trustworthy guarantees on a future self-determination referendum. In addition to the rightist splinter groups led by

Poujade and Bidault, the Independents, who won almost 20 percent of the vote in the 1958 parliamentary election, will muster some opposition.

The Independent party as such refused to take a stand on the referendum and is permitting its members voting freedom, but its recent party congress condemned De Gaulle's Algerian policy by a vote of 1,360 to 441. Radical Socialists are also calling for a negative vote, but party members are permitted individual freedom on their votes. The tiny Unified Socialist party (Mendes-France's group) has been urging "unity of action" among all opponents of the referendum.

De Gaulle is supported by the bulk of the Socialists, the Popular Republicans, and the Gaullist UNR. The two major non-Communist labor unions have rejected the appeal of the Communist-dominated General Labor Confederation for joint opposition. De Gaulle's greatest strength is the conviction of most Frenchmen that he is their best hope for a solution of the Algerian problem and that the opposition offers no valid alternative. Guy Mollet expects De Gaulle to do as well as the 79.2-percent vote he got in metropolitan France in the constitutional referendum in October 1958, but it is more likely that he will receive only 60 to 70 percent unless some serious attempt against the regime in the meantime rallies all democratic forces behind the government.

In Algeria, where the referendum will take place on 6, 7,

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

29 December 1960

and 8 January, the outcome is questionable and may hinge on the army's attitude. Enthusiastic support by the army could produce a large "yes" vote in the countryside, where De Gaulle was well received by the Moslem population on his recent tour. This vote will probably be necessary to offset the large "no" vote from the European settlers and an appreciable number of urban Moslems.

The Algerian rebel National Liberation Front (FLN), which views De Gaulle's entire program as an unacceptable unilateral solution, has reportedly passed instructions for Moslems to abstain; it will probably be able to enforce considerable compliance in the large cities, where its agents can best con-

trol the population. The Delegation-Generale is already experiencing difficulty in finding Moslem poll watchers because of the threat of FLN reprisals.

European activist groups are reported planning street demonstrations in Algiers from 3 to 8 January, in the form of processions through a different quarter of the city each day. Such demonstrations would undoubtedly provoke Moslem counteractivity, which FLN agents would be in a good position to organize and direct. The government, apparently aware of the Europeans' plans, hopes to be able to control any disturbances without employing the army.

25X1

25X1

CUBAN AND CENTRAL AMERICAN DEVELOPMENTS

After a two-month pause in military deliveries, the Soviet bloc apparently has resumed large-scale arms shipments to Cuba. Two Soviet vessels are believed to have unloaded military cargoes in Cuba between 20 and 24 December, and more may be en route.

Soviet-Cuban 1961 trade contracts worth more than \$160,000,000 were signed in Havana last week. They provide for shipment of 1,000,000 tons of Cuban sugar to the USSR and for Moscow to supply Cuba with 4,400,000 tons of petroleum and petroleum products. These contracts embody the main features of the five-year trade agreement signed last February but do not include additional purchases up to a total of 2,700,000 tons, which the USSR is to make if the United States does not buy Cuban sugar in 1961.

Poland and East Germany have extended their trade agreements with Cuba to cover the period through 1965. All major bloc economic agreements with Cuba now have been put on a long-term basis and thus can be included within the bloc's long-range economic planning.

Chinese Communist ambassador Shen Chien arrived in Havana on 23 December, becoming Peiping's first chief of diplomatic mission in the western hemisphere. He was met at the airport by high Cuban officials, the Soviet and Czech ambassadors, and, according to the Cuban press, representatives of some 40 organizations of the Chinese community in Cuba, the largest in Latin America.

Meanwhile, preparations are under way in Cuba for large new staged demonstrations

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

of loyalty to the regime and a major propaganda display on 1 January--the second anniversary of Castro's revolutionary victory. Celebrations are planned for 1 and 2 January, and delegations from most, if not all, Latin American countries, as well as bloc representatives, are expected to participate.

The events of 1 and 2 January will provide a new forum for anti-US diatribes and may be the occasion for some new dramatic announcement, such as a formal demand for US evacuation from the Guantanamo naval base. The occasion will also be used for further efforts to propagandize the Cuban revolution among susceptible groups from other Latin American countries.

Sporadic and apparently uncoordinated acts of sabotage continue throughout Cuba, and the regime is strengthening its police-state controls. Informacion, the last daily newspaper with a semblance of independence, ceased publication on 23 December. The entire judicial system is being revamped "to bring it into line with the revolution."

The regime's stepped-up campaign against the hierarchy of the Roman Catholic Church, presaged in a bitterly anticlerical speech by Fidel Castro earlier this month, is likely to result in the expulsion of certain priests identified by the regime as active "counterrevolutionaries." Only some 144 priests of the 707 now in Cuba are Cuban citizens; most of the others are Spaniards.

Central America

Fourteen leaders of the Communist-front April and May Revolutionary party (PRAM) in El Salvador have evidently either left or are about to leave for

Cuba. The trip coincides with the revolutionary anniversary celebrations in Havana to which numerous other Latin Americans have been invited. The Salvadorans are almost certain to receive guidance and possibly material support from Cubans while there under cover of the celebrations. The American Embassy in San Salvador sees the trip to Cuba as an indication that El Salvador is about to receive a "massive injection" of Castro-Communist doctrine, guidance, and support.

Communists and pro-Communists are meeting some resistance, although as yet ineffectual, to their continued efforts to extend their influence in Salvadoran Government posts under the six-man military-civilian junta, and in labor, student, and other groups outside the government. Col. Jose Antonio Valdes, under secretary of public security, told the US army attaché in mid-December he was strongly opposed to the effort of Attorney General Mario Castrillo Zeledon, a suspected Communist, to have the criminal investigation division of the national police placed under Castrillo's direction. On 21 December, Castrillo's home was machine-gunned--possibly an attempt by Valdes or other anti-Communist officers to warn him against further efforts to usurp what the military regards as its functions.

In any event, Valdes' statements indicate growing awareness of the Communist threat--even among officers who, like Valdes, had earlier lightly dismissed the danger of Communist penetration of the government. Valdes is regarded as close to ex-President Oscar Osorio, a prime instigator of the October coup who probably aspires to a return to power.

Meanwhile, residents of a small provincial town in El

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

29 December 1960

Salvador resisted on 22 December the government's effort to replace the local mayor, who had been removed in response to demands of a Communist-front political party. National Guard reinforcements had to be sent to restore order.

In neighboring Guatemala, plotting against the Ydigoras regime will probably increase in intensity after the 25X1 holidays, and a new coup attempt could well take place early in 1961.

LAOS

Balancing political and military pressure tactics, the Communists are intent on preventing any pro-Western government from establishing effective control in Laos. Behind the diplomatic maneuvers and propaganda, the continuing Communist airlift into Laos suggests that the three bloc partners in this enterprise -- Moscow, Peiping, and Hanoi -- are prepared to support prolonged military activity in Laos if this is required to produce a political settlement favorable to the Communists.

Soviet Foreign Minister Gromyko in his speech before the Supreme Soviet on 23 December characterized events in Laos as "a militant prelude to complete liberation from foreign rule."

On 22 December, in a note to the British Government, the Soviet Union officially requested the cooperation of Great Britain, as co-chairman with the USSR of the 1954 Geneva Conference, in reviving the International Control Commission (ICC) in Laos and convening representatives of all governments that participated in the Geneva Conference. The Soviet proposal referred to a suggestion by India's Prime Minister Nehru that the ICC be reactivated as a means of settling the Laotian crisis and reflected a concerted bloc effort during the previous week to heighten tension in the area and muster support for a new international conference on Laos.

If the ICC is reactivated, the bloc would expect it to promulgate a cease-fire--one that, in

effect, would divide Laos into Communist and non-Communist portions and make it necessary eventually to bring the Communists into any national government that might hope to assume even nominal authority over the entire country. This was essentially the pattern followed by the ICC deactivated in 1958. Previous bloc attempts to revive the ICC have always been thwarted by Laotian Government objections. In the note to the British, Moscow urged that the ICC confer with Souvanna Phouma on renewal of its activity in Laos.

The bloc apparently is making a strong effort to encourage Souvanna not to renounce his claim to head the legitimate government of Laos. Souvanna has met privately with Soviet officials, including Soviet Ambassador Abramov, in Phnom Penh on at least two occasions within the past week. Souvanna's formal resignation as prime minister would seriously undercut the bloc's efforts to justify support for Kong Le and the Pathet Lao on the grounds that assistance is being given to a legal government.

The Soviet diplomats also may be urging Souvanna to endorse the Soviet proposal to reactivate the ICC for Laos. In addition, Souvanna may have been asked to reconsider his previous rejection of a Neo Lao Hak Sat invitation to establish himself in the Pathet Lao stronghold of Sam Neua. According to the clandestine Pathet Lao radio in Laos, former Minister of Information Quinim Pholsena, who claimed to represent the Souvanna government in Vientiane

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

following Souvanna's hasty departure for Phnom Penh, arrived in Sam Neua on 22 December. Pholsena claimed, in remarks broadcast by the Pathet radio, that Souvanna Phouma would return to Laos "at a favorable moment in the future."

Souvanna, however, indicated

he would never return to Laos unless his proposal for the creation of a coalition government including both the Pathet Lao and the Phoumi rightists was accepted or unless a government was formed excluding both groups.

he planned to stay on in Phnom Penh for a few weeks but if his hopes for a coalition government were not realized, he would join his family in Paris.

Communist China's Foreign Minister Chen Yi, in a 28 December letter to the Geneva co-chairmen, warned that the "war in Laos is pregnant with danger of further expansion." Endorsing the 22 December Soviet note to the British, Chen Yi insisted that the reactivated ICC should deal only with the "legal" government of Souvanna Phouma--contacts with the Boun Oum government "would be extremely serious"--and stated that, should it prove impossible to bring back the ICC on these terms, another Geneva conference should be called--a conference in which the Chinese Communists would expect to participate.

Unconfirmed reports indicate that foodstuffs and arms and munitions, including "cannon and mortars," are being dropped to the Kong Le forces.

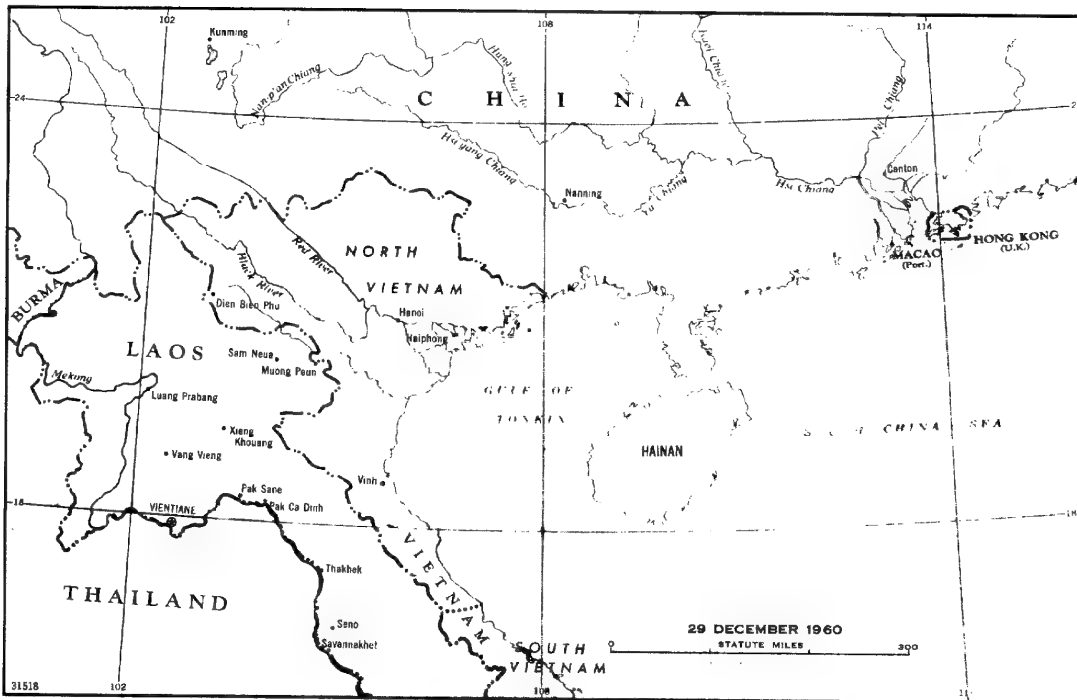
In Laos, three columns of government troops are moving northward from Vientiane in pursuit of Kong Le's forces. The

main column has occupied Phong Hong, about 40 miles from Vientiane on the road to Luang Prabang. The first drop zone for Soviet IL-14 aircraft in support of Kong Le was located near Phong Hong; the drop zone was subsequently shifted northward to the Vang Vieng area, which has long been a Pathet Lao stronghold. The ultimate objective of the government operation appears to be Vang Vieng, where reports indicate Kong Le will make his main stand.

The bulk of Kong Le's force of about 500 men is probably already in the Vang Vieng area. In addition, there are probably between 1,000 and 1,500 Pathet Lao in the area. Government sources claim that morale is poor among the irregular troops in the Kong Le force. They anticipate that most of these elements will eventually desert.

A hard core of about 200 men from the Second Paratroop Battalion would probably stay with Kong Le, however. Probably the best trained men in the Laotian Army, they could serve as cadres in an integrated Kong Le/Pathet Lao force. Kong Le has presumably taken at least some of the Soviet-provided mortars and 105-mm. howitzers with

**BOUN OUM****SECRET**

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****29 December 1960**

him to Vang Vieng, which if still operable will make Vang Vieng a most formidable object of attack. Aerial reconnaissance has observed truck activity in the Vang Vieng area, tending to confirm reports that Kong Le took a sizable number of motor vehicles with him when he left Vientiane.

In the event they are forced out of the Vang Vieng area, Kong Le and the Pathet Lao would have the choice of moving against Luang Prabang, turning eastward to attack Xieng Khouang, or retreating to Pathet Lao - controlled Sam Neua Province.

King Savang's current visit to Vientiane--his first since the Kong Le coup of 9 August--is intended to lend support to the new Boun Oum government through ceremonial association with the

crown. Savang may add his voice to those urging upon General Phoumi the desirability of having the National Assembly formally invest the Boun Oum government, which is now merely provisional in nature. Phoumi and his immediate advisers have to date resisted the proposed legitimization of the new government through assembly action.

Phoumi is clearly enamored with the idea of following the example of his kinsman, Marshal Sarit of Thailand, by dissolving the assembly, rewriting the constitution, and revamping the entire government structure. In the end, however, the odds are probably in favor of his bowing to pressures for assembly legitimization of the government in order to attract greater international support.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

CONGO

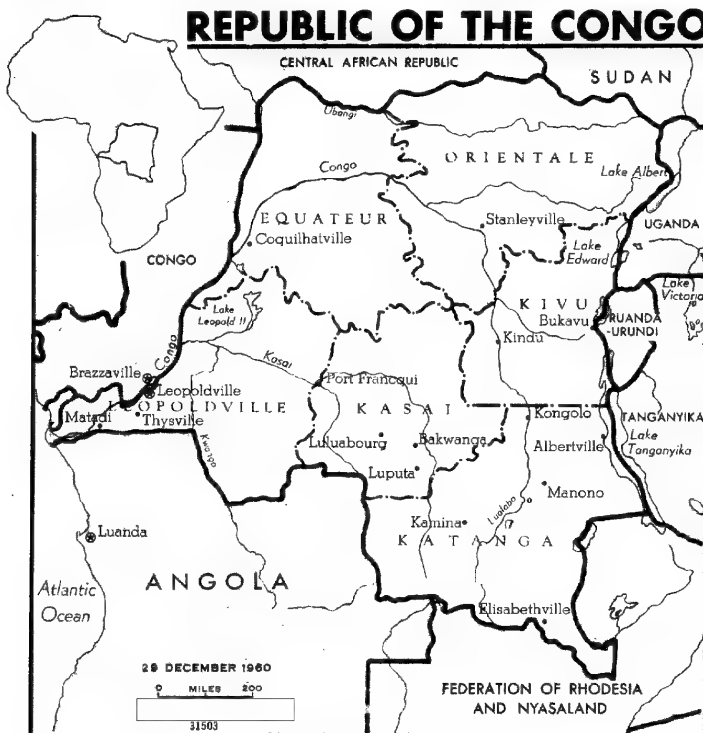
A "balance of weakness" between Gizenga's and Mobutu's forces, in which Mobutu hesitated to move militarily against the weak but inaccessible regime at Stanleyville, ended on 25 December when Gizenga's soldiers entered Kivu Province. A force of about 60 men seized provincial leaders and a military commander regarded as leaning toward

Although his hold on Kivu is probably precarious, the ease with which Gizenga achieved the first of his goals, with little outside help, can be expected to boost the dissidents' prestige both within and outside the Congo.

The situation in Kivu will increase pressure on Mobutu to undertake military operations against the dissidents, notwithstanding UN opposition. Hammarskjold has sent a letter to Kasavubu implying that he will ask the Security Council to take the UN out of the Congo if Mobutu uses force in an attempt to take Orientale Province. Kasavubu--in an apparent attempt to avoid an obstructionist role relative to the UN-- has indicated

25X1

that he is willing to receive the long-delayed UN conciliation commission, preferably at the time of Hammarskjold's visit to Leopoldville on 3-4 January.



Mobutu. Although no more than a few hundred troops were used by the dissidents, by 27 December much of the province appeared responsive to the Gizenga regime.

By his initiative Gizenga gained control of a food-producing area capable of alleviating the serious food shortage in Stanleyville.

Meanwhile, Guinea, Ghana, Mali, and the UAR have accepted an invitation from King Mohamed V of Morocco to meet in Casablanca on 3 January to discuss common problems. In addition to providing a sounding board for anti-Western pronouncements, the meeting is expected to promote discussion of possible joint action to aid the Stanleyville dissidents.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****29 December 1960**

Soviet Foreign Minister Gromyko on 23 December said that the USSR recognizes Gizenga as the "acting premier of the legitimate government of the Congo," but the USSR has so far refrained from extending aid and explicit recognition to his Stanleyville regime. Gromyko, reporting on developments in the Congo, told the Supreme Soviet that "cutthroats in the pay of foreigners" had adjourned the parliament elected by the Congolese people and had imprisoned the lawful premier, Lumumba. He asserted that this, however, could not be regarded as a victory for the "colonialists" because it had dispelled the naive illusion that they will voluntarily relinquish their rule in the colonies. The failure of the UN in the Congo situation, he said, makes clear the "pressing need" for changing the structure of that body.

Khrushchev, after a delay of ten days, responded on 25 December to an appeal for assist-

ance from Gizenga by reiterating general promises of Soviet support and sympathy but avoiding any specific commitments. Moscow may be awaiting the outcome of the Casablanca meeting of African leaders before taking a definite stand toward the rump government.

In Leopoldville, the approach of 31 December, originally set by Mobutu as the terminal date for his interim government, has stirred new dissension over the absence of civil government in the Congo. Mobutu appears to favor the retention of his commissioners under a premier responsive to himself; Kasavubu, on the other hand, favors the restoration of the Ileo cabinet, with which he displaced Lumumba.

25X1

GERMAN INTERZONAL TRADE TALKS

Following good progress in the earlier talks, East - West German negotiations on reactivation of the interzonal trade agreement were still in the hard bargaining phase as of 29 December. The East German representative on 22 December suddenly reversed his conciliatory attitude, complained about "leaks" to the Western press, and asked for a postponement of the negotiations until 28 December.

The USSR for the first time is giving high-level public support to East Germany's efforts to pressure Bonn into

renewing the trade pact. In his speech to the Supreme Soviet on 23 December, Foreign Minister Gromyko warned that failure to reach an agreement would be "fraught with unexpected and quite dangerous consequences," might elicit an East German "retaliatory blow," and could even lead to "a dangerous complication in relations between the four powers." This threat --which contrasts with the general tone of Gromyko's speech --may indicate that Ulbricht appealed to Moscow for specific support to strengthen his hand in the talks.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

Nevertheless, certain points in Ulbricht's report to the Socialist Unity party central committee plenum, which met soon after his return from the conference of Communist leaders in Moscow, reinforced the impression that the East Germans have received orders to take a softer line toward Bonn and concentrate on solving the regime's pressing internal difficulties. In a dramatic shift from the position enunciated by Neues Deutschland on 4 October that "peaceful coexistence" with West German militarism is impossible, Ulbricht appealed at the plenum for a "political detente" with West Germany and declared that "normal coexistence between the two German states" must be achieved through negotiations.

Ulbricht implied, moreover, that the East Germans had underestimated Bonn's economic strength. He claimed that "in the long run" socialism would triumph in West Germany, but he gave unusual emphasis to

East Germany's handicaps in its economic competition with the West Germans, noting that the regime had had "unusually great difficulties, some of which have not been fully overcome." He even included East Germany's reparations to the USSR in this category.

Although earlier information indicated that Bonn would be satisfied merely with non-implementation of the restrictions on entry of West Germans into East Berlin rather than de jure East German revocation of the decree, Bonn is probably seeking to obtain some kind of written guarantee that the controls will be eased. However, Bonn would probably view the cessation of the restrictions as a tactical victory. In any case, the flexibility shown by Bonn and Moscow in reaching agreement on the Soviet - West German trade agreement makes it likely that East and West Germany will also come to terms on interzonal trade. 25X1

* * *

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

PART II**NOTES AND COMMENTS****EAST EUROPEAN REACTION TO THE MOSCOW MEETING**

All of the East European Communist parties except Poland's have held plenary or "enlarged" central committee meetings for the purpose of ratifying, and thus formally associating themselves with, the 6 December declaration of the Moscow conference of Communist leaders. Press comment has been sparse, however, and some bloc diplomats and government officials obviously are reluctant to discuss the bloc's "summit" meeting. Though they praise the declaration as a basic document of Marxism-Leninism and hail the three-week debate as "proof" of the unanimity within the bloc, each of the parties, other than the Albanian, has tended to highlight those parts of the declaration which reflect its own--and Moscow's--position in Sino-Soviet dispute.

The virtual news blackout noticeable in Warsaw during the meeting has continued, and usually voluble government figures are still reluctant to talk with Westerners. Party leader Gomulka, however, has commented on the Moscow session at length. Using the occasion of a long-scheduled rally at Katowice immediately after his return to Poland, Gomulka said the conference had reaffirmed the policy of peaceful coexistence and the doctrine of the noninevitability of war as first enunciated at the 20th Soviet party congress. He painstakingly gisted the then unpublished resolution but mentioned only those points coinciding with Khrushchev's views.

Gomulka failed to mention either sectarianism or dogmatism and refrained from attacking Yu-

goslav revisionism. His attack on the United States as the leader of the imperialist camp was considerably more moderate than that of the resolution, but the Polish press subsequently has hit the United States for its policies toward Laos, the Congo, and West Germany.

The attitude of Albania, whose representatives walked out of the conference a week before it ended, has been cautious but determined. The Albanian central committee resolution of 20 December, as well as party-line editorials, moderated somewhat Tirana's usual anti-Western and anti-Yugoslav polemics but failed to comment on several of the controversial ideological and foreign policy issues discussed at the Moscow meeting. The Albanian party congress, originally set for November and postponed until this month, has been rescheduled for February--by which time the Albanian leaders may hope to have a clearer idea of their status within the bloc.

A clue to their status was provided by East German party boss Walter Ulbricht on 17 December. In his address to the party central committee plenum, reprinted in full in Neues Deutschland the following day, Ulbricht excoriated the Albanians for their intransigence and dogmatism. Ulbricht charged that some parties have failed to give due credit to the role which the "fraternal international assistance" of the USSR has played in their internal development, and accused them of overemphasizing the relevance of national peculiarities in the development of socialism.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

The Bulgarian, Czechoslovak, Hungarian, and Rumanian party first secretaries all made reports on the Moscow meeting to their respective central committees, but only Gheorghiu-Dej's remarks have been published. In his speech to the plenum on 20 December, Gheorghiu-Dej spoke optimistically about a deepening crisis in the capitalist world and the growth

of the socialist forces, but he emphasized the need for unity within the bloc and warned against embracing policies which might tend to undermine such unity. Hungarian leader Kadar, immediately following his return from Moscow and prior to his speech to the plenum, admitted publicly that he had been attacked during the meeting for his^{25X1} "soft" internal policies, which he said he had defended successfully.

AGRICULTURAL SCANDAL IN SOVIET PROVINCE

The dismissal on 14 December of Aleksandr Petukhov, party chief in Bryansk Oblast, a Russian Republic province southwest of Moscow, on charges of "failing to cope with his work" apparently resulted from the exposure of a major scandal in the administration of agriculture in the area.

The Soviet party central committee newspaper Rural Life on 25 November disclosed fraud, conspiracy, and deceit in reporting agricultural production and sales to the state. Among the charges was conspiracy between collective farms and procurement organizations involving fictitious delivery receipts. The paper also revealed deals to increase illegally the size of private plots of certain collective farm members in return for their surrender of some privately owned animals to the state for credit against the obligations of the collective farm.

The farms and other organizations in the oblast were apparently forced to such practices in a vain attempt to meet pledges to the state which were evidently unreasonably high. Khrushchev has repeatedly stressed the

seriousness with which he views failure to fulfill pledges and has called for more realistic estimates of production capabilities.

Petukhov, although apparently not a party to the deals, was held responsible. He was succeeded by Mikhail Krakhmalev, who was transferred from his post as party chief of nearby Belgorod Oblast. The head of the Belgorod Oblast government, Aleksandr Kovalenko, was promoted to oblast party chief.

Petukhov is the first provincial party chief in the important Russian Republic (RSFSR) to be charged specifically with agricultural failures since Dmitry Matyushkin was fired from his post in Krasnodar in early June 1960. Deficiencies in agricultural work, however, may have figured in the transfer of several provincial chieftains to other work in the past few months.

Moscow admits that much of the farming area was plagued with adverse weather conditions this year, but apparently it primarily blames human mistakes and lack of interest for the poor results. Recent criticisms

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

of leadership in agriculture in other areas--particularly Altay Province, one of the most important grain-producing regions in the Soviet Union--may signal further shake-ups.

The changes in Bryansk and Belgorod oblasts bring to 14 the number of RSFSR provinces to get new party chiefs in the past four months. One factor in such a large number of changes

in so short a period may have been the apparent approach of the 22nd party congress--until recently thought to be slated for early 1961. A large number of shifts in RSFSR provincial party chiefs usually precedes a regular party congress--17 such changes took place in the four months preceding the 20th congress in February 1956.

25X1

25X1

TAIWAN STRAIT

Chinese Communist artillery action against the offshore islands has almost completely ceased during the past month, marking the lowest ebb in shellings since the odd-day firing pattern was established in October 1958. Since late November there has been only one barrage--33 propaganda rounds fired at the Chinmens on 13 December--and the Matsus have not been shelled since 27 October.

Peiping may now be planning to fire at more infrequent intervals, feeling that the scheduled regularity of the shellings during the past two years has detracted from their propaganda impact. According to an unconfirmed press report of 23 December, the Communists announced via loudspeaker opposite the Chinmens that they planned to abandon the odd-day shellings. The Chinese Nationalist Defense Ministry has denied knowledge of such an announcement.

It was Peiping's failure to achieve its objectives in the 1958 Taiwan Strait crisis which brought about the odd-day firing pattern. Peiping hoped in this way to demonstrate that it retained military initiative in the area and was not accepting the repeated US demands

for a cease-fire. The Communists also sought, by claiming that the odd-day shelling would facilitate the "resupply of the offshore islands, to make it appear that the nationalist garrisons could be maintained only on Peiping's sufferance.

The Chinese Nationalists, in contrast to the decreased Communist activity, have increased the number of high-explosive shells fired against the mainland since mid-November. Much of the shelling has been registration and practice firing and probably is intended to maintain morale and combat readiness in the event Peiping steps up action in the strait. Taipei may also hope to provoke the Communist guns into action as it has in the past, feeling that continued tension in the area is politically advantageous.

Since late June the "liberate Taiwan" theme has dropped to negligible proportions in Chinese Communist propaganda. In the few references to the subject, however, Peiping continues to couple its assertions of preference for a peaceful solution to the Taiwan issue with insistence on its readiness to use force if necessary. This line was last taken in a 5 December

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

broadcast which stated that the Communists still entertained hopes of peaceful negotiations with Chiang Kai-shek.

Peiping continues its routine campaign to subvert the Chinese Nationalists by undermining their faith in the integrity of US support. Communist broadcasts beamed to Taiwan are currently emphasizing the "severe" damage being done to the island's economy by the continued "dumping" of US surplus commodities.

The present lull in Chinese Communist militancy toward Taiwan was also reflected at a 28 November propaganda briefing of Communist newsmen in Hong Kong. Peiping's professed position, as set forth by the spokesman at the briefing, was that the "military liberation" of Taiwan had been put off because China wished to avoid the risk of a full-scale war which would jeopardize its economic achievements.

NEPALI COMMUNISTS DIVIDED IN REACTION TO KING'S RULE

The Nepali Communist party is reportedly divided in its interpretation of the implications of King Mahendra's 15 December takeover of the government.

Moscow conference, now are in India; those in Nepal were not included in the King's initial roundup of politicians and,

There are reports that the King will restrict Communist activities once his new government is functioning, but it is doubtful that he will move decisively against them even then unless the party mounts an all-out campaign against his direct rule.

some party members have begun to spread rumors linking the United States with the King's actions and are seeking support among disgruntled Nepali Congress party workers. The Communists are expected to capitalize on anticipated political unrest and to seek to mobilize antimonarchial sentiment.

Despite private assurances that the King is alert to the dangers posed by the Communists, the palace has yet to move against them. Some top Communist leaders, en route home from the

The nine men appointed to the King's caretaker council of ministers on 26 December appear to have been chosen primarily for their willingness to accept their role as advisers to the King, who will chair the council, and as executors of the King's personal policies. Dr. Tulsi Giri, who resigned several months ago from the Koirala cabinet, is the most competent and experienced of this mediocre group. He will hold the key portfolios of defense, foreign affairs, and palace affairs, but direct control of the army and police remains in Mahendra's hands. Rishikish Shaha, Nepal's

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

29 December 1960

ambassador to the United Nations and the United States, will handle economic matters; he is personally ambitious and has long been a "King's man."

The over-all complexion of the council is moderate. The

absence from the group of any politician with significant domestic following and the generally low level of competency within the group should ensure the complete dominance of the King over his council.

25X1

MIDDLE EAST HIGHLIGHTS

UAR

Nasir's speech in Port Said on 23 December was a wholesale indictment of his enemies--real and imagined--and included some of the sharpest criticism of American policy in the Arab world, Africa, and the United Nations ever voiced by the UAR President. Much of his attack centered on reports of Israel's approaching atomic bomb capability, which he said would be matched by the UAR, whatever the price. He added, "If we are sure Israel has it (the bomb)... inevitably we must attack the base of aggression." He claimed that, at least indirectly, American money would be responsible for Israel's possession of atomic bombs, adding that "every bullet shot to kill an Arab is paid for by American and Western imperialism."

Switching to Algeria, Nasir again placed the onus for the situation there on the United States. He claimed that NATO and the Western states stand against Algeria's right to freedom and self-determination and that "the arms and aid with which France fights come from America."

In his comments on the UN operations in the Congo, Nasir declared, "I believe they (the United States) have destroyed the UN." In addition, he stated that the Congo situation proves the need for changing the administrative setup of the UN Secretariat.

Nasir also accused the United States of supporting elements opposing him in Syria and sarcastically referred to American aid to King Husayn of Jordan. Nasir's sensitivity in regard to Syria stems from the continuing political and economic difficulties which confront him there.

For months Syrian officials have attempted to persuade businessmen to cooperate in getting the region's Five-Year Plan under way. Private investors are scheduled to provide about 60 percent of total planned investment. However, Syrian businessmen have refused to participate, despite official oral reassurances, without a written guarantee against nationalization. In late December the Syrian executive council, after lengthy debate, forwarded its recommendation to Cairo that such a decree be issued.

Nasir's reaction was swift and decisive. He chose the closing moments of his 23 December speech celebrating the 1956 "victory" over France, Britain, and Israel to lash out at Syrian capitalists, labeling them "exploiters and profit seekers" and threatening their liquidation.

Nasir's reaction is likely to confirm Syrian suspicions that Cairo's ultimate goal is to control all Syrian economic activity. Prolonged foot-dragging by Syrian private investors could deal the shaky economy

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****29 December 1960**

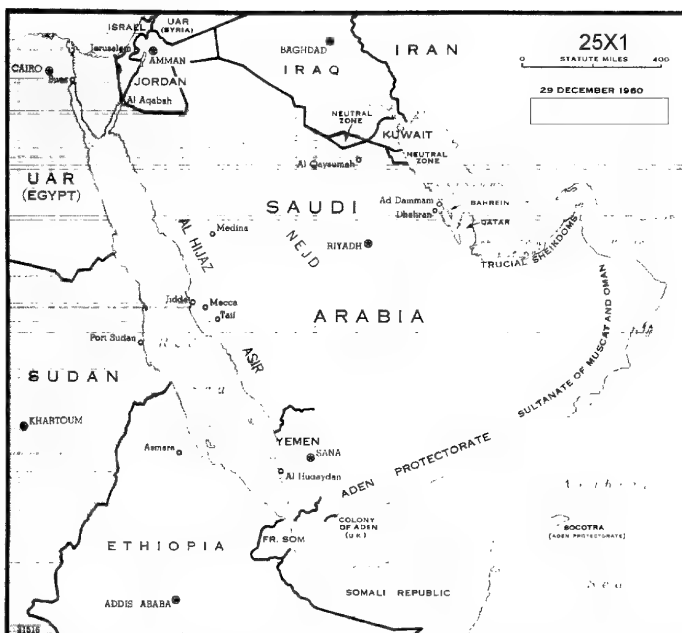
25X1

a serious blow and thus further complicate Nasir's political problems in the northern region.

Saudi Arabia

King Saud, who resumed control of the Saudi Arabian Government on 21 December, has followed his appointment of a new cabinet with policy state-

It is not yet clear to what extent the King's espousal of these reforms has been simply a device to obtain the support he needed for re-establishing his authority and to what extent he will actually implement the new policies. If he reverts to the sort of economic extravagance and political capriciousness which characterized his earlier period of rule from late 1953 to early 1958, he might create conditions which would not only assure his own displacement but also hasten the overthrow of the monarchy itself.



ments pledging substantial economic and political reform. The King promised to take steps to improve the Saudi economy, decentralize the government, provide for constitutional rule, and guarantee freedom of the press "within reasonable limits."

In the field of foreign policy, he pledged close cooperation with the Arab states and "complete neutrality" in dealing with other foreign governments. He said he would "exert all efforts" to aid the Arabs of Palestine, Algeria, Oman and the Arab south--Aden and the Aden Protectorate--as well as "adopt all methods" to win the Buraimi Oasis dispute with the United Kingdom.

For the moment, the King's position appears strong. This is especially true in the central province of Nejd, where he has extensive tribal support, and in the Eastern Province, where the harsh administration of its governor, Saud Ibn Jaluwi, has effectively suppressed dissident activity.

The western provinces of Hijaz and Asir may, however, become sources of serious trouble. Resentment there has long been widespread because of domination of the country by the House of Saud and other leaders from the Nejd.

25X1

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

29 December 1960

25X6

25X1

THE THIRD FRENCH NUCLEAR TEST

France's third nuclear test, set off early on 27 December, has brought sharper Soviet and Arab reactions than did the first two, with some Arab commentators tying it to reports that France is aiding

Israel in the production of nuclear weapons. The test is likely to become an important topic of discussion at the conference of African leaders opening on 3 January in Morocco.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****29 December 1960**

25X1

On 28 December an Arab League spokesman described the test as a "criminal action" and said that the Arab states may sever political and economic relations with France. Radio Cairo couples the test with the report that France is helping Israel produce an atomic bomb. It sees France's atomic activities as part of an "imperialist master plan" to intimidate the African and Arab peoples and to "colonize the area by atomic fall-out." The Iraqi foreign minister has said that an Arab League foreign ministers' meeting scheduled for mid-January would consider measures to "fight France on all fronts," and that its discussions would include the question of the 23.75-percent French interest in the Iraq Petroleum Company.

As in the case of the Saharan tests of 13 February and 1 April, African reaction has been strongly adverse. A statement issued by Ghana's Nkrumah on 27 December deplored France's "disregard...of responsible opinion in Africa." Nkrumah--who temporarily froze French assets after the first test and withdrew his ambassador from Paris after the second--has summoned an "emergency" cabinet meeting for 30 December to consider new action against France.

In Nigeria, the French ambassador was summoned to the Foreign Ministry, apparently to receive an official statement of the government's displeasure. The earlier tests had produced a sharp reaction in Nigeria, where the Balewa government is committed to a parliamentary motion calling for the suspension of French-Nigerian trade and the seizure of French as-

sets if France refuses to halt the Saharan tests. At least one major Nigerian newspaper is urging diplomatic as well as commercial counteraction.

Rabat is also threatening reprisals. Moroccan Minister of Information Alaoui called the test a "provocation" and said "necessary measures" would be taken. A government spokesman said French nuclear testing would be discussed at the "African summit" Rabat has scheduled to begin on 3 January.

In contrast to moderate comment on previous tests resulting from Soviet unwillingness to irritate De Gaulle during the pre-summit period, current bloc propaganda has sharply attacked the recent test. TASS pointed out that the French tests were in defiance of a UN General Assembly resolution on the discontinuance of nuclear weapons tests and charged that France is one of the main obstacles to an agreement on disarmament.

25X1

A French Foreign Ministry spokesman said publicly another test can be expected in a "relatively short time--perhaps a few weeks."

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

29 December 1960

PARAGUAY MAY FACE NEW REBEL ATTACKS

The Stroessner dictatorship, now in its seventh year, may be facing a new series of guerrilla raids by Paraguayan exile groups working in closer cooperation than before. The government quickly suppressed commando attacks near Asuncion

and sought foreign assistance, which seems limited thus far to small material and training aid.

Paraguay has protested to Buenos Aires over failure of Argentine border officials to prevent the river crossing, although President Stroessner stated publicly his conviction that President Frondizi was not involved.

25X1



by some 60 rebels who infiltrated from Argentina on 21 December, but another group of 60 has been operating in Yhu and Itaquary for six weeks, and a new attempt may be made within the next several days. Despite long-standing antagonisms, the several exile groups are reported making progress in talks aimed at closer cooperation. They hope that coordination of their activities will encourage increased for-

Both the Brazilian and Uruguayan governments fear that a revolution in Paraguay would be exploited by Communist elements, since the opposition has apparently undertaken no joint planning for an interim government. Brazil has given some material and considerable training support to Paraguay, where it wishes to bolster its position against traditional Argentine dominance, and Uruguay has aided Stroessner's campaign for a position of increased respectability in the hemisphere.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

Uruguayan National Councilor Haedo recently sent his private secretary to discuss with Stroessner Communist infiltration in the Rio Plate area, reporting that within a short time some 1,600 people had entered Uruguay, most with Cuban visas, and had then completely disappeared. Haedo assumes they are infiltrating into Paraguay, Brazil, and Argentina.

Stroessner's political difficulties have been aggravated by deteriorating economic conditions, including a seasonal food shortage, but he still retains the loyalty of the armed forces, key to political power in Paraguay. He has protested Argentine laxness in protecting the border and may step up his diplomatic campaign against foreign aid, which the exiles require to mount a successful ouster attempt.

25X1

* * *

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

PART III**PATTERNS AND PERSPECTIVES****JAPANESE AID TO UNDERDEVELOPED COUNTRIES**

With prosperity at an all-time high and foreign exchange reserves accumulating at a record rate, Japan is in a position to increase substantially its assistance to underdeveloped countries. Its relatively minor contribution to date, aside from reparations, stems more from attractive investment opportunities at home and the desire for domestic development than from a lack of financial resources.

Domestic Prosperity

No one who has pushed his way through throngs of shoppers in Tokyo's Ginza department stores, dined at \$15 to \$30 per head at a restaurant patronized by Japanese, or taken a crowded train bound for a resort can fail to be impressed by Japanese prosperity. Since 1955, the rate of increase in Japan's gross national product (GNP) has only once fallen below 9 percent. This was in 1958, a year of world-wide recession, when it dipped to a bare 2 percent in real terms. In fiscal 1959, the Japanese economy registered its highest rate of growth since World War II, 17.7 percent in real terms, with further increases of approximately 10 percent predicted officially for this year and for 1961.

In terms of real wages the Japanese are living 25 percent better than before the war, although per capita GNP was still only \$350 in 1959,

which is below that of most Western countries. The Japanese standard of living is by far the highest in Asia. With gross private investment amounting to 35 percent of GNP in 1959--a 57-percent increase over 1958, and with investments and loans of government and government-affiliated agencies alone amounting to \$1.3 billion during fiscal 1959, Japan is a potentially significant power in the international investment field and could also become an important contributor to Asian economic development.

Not only does Japan have a relatively light tax and defense burden compared with Western countries, but national growth has been achieved during the last ten years with stable prices and without recourse to inflationary financing. Domestic and foreign debt

**JAPANESE REPARATIONS AND CREDITS
(AS OF MAY 1960)**

	REPARATIONS GRANTS		CREDITS ^a	
	PROMISED	DELIVERED	PROMISED	DELIVERED
BURMA	200	88		
THAILAND	15	15		
INDONESIA	400	204	81	N. A.
PHILIPPINES	550	85.5	47.8 ^b	N. A.
SOUTH VIETNAM	39	0	24.1	0
LAOS	2.8 ^c	0		
CAMBODIA	4.2 ^c	0		
INDIA			99	14
UAR			30	7
PARAGUAY			3.8	3.8
YUGOSLAVIA			10	0
BRAZIL			104	N. A.
PAKISTAN			36	N. A.

a-Some Japanese credits are government negotiated, others are negotiated by private interests; in most cases, however, the Japan Export-Import Bank provides the funds, which are used to purchase Japanese products.

b-The Japanese credit to the Philippines ultimately is expected to be deducted from the reparations program.

c-Grants to Laos and Cambodia nominally are in lieu of reparations.

01227 D

29 DECEMBER 1960

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

TAX BURDEN COMPARISONS

(Figures are for fiscal or calendar year 1959)

	Percent of GNP
France	34
West Germany	34
United Kingdom	30
Italy	27
United States	25
Belgium-Luxembourg	23
JAPAN	18
*Portugal	17
*Spain (Estimated)	13

*Living standard approximately same as Japan's.

01227 C

29 DECEMBER 1960

DEFENSE BURDEN COMPARISONS

(Figures are for fiscal or calendar year 1959)

	Percent of GNP
United States	9.7
United Kingdom	7.2
France	7.1
Yugoslavia	6.8
*Greece	5.1
West Germany	4.8
Turkey	4.4
**Portugal	4.3
Italy	3.8
**Spain	3.4
Belgium-Luxembourg	3.3
JAPAN	1.5

* Living standard approximately same as Japan's.

** Living standard lower than Japan's.

01227 B

29 DECEMBER 1960

is also proportionately lighter than in the case of the large industrial nations of the West.

Limited Aid So Far

Although Japanese leaders have endorsed the need for international economic cooperation and have produced many plans for participating, Japan's actual performance, aside from reparations, has been limited. Total grants under the Japanese reparations program total over \$1 billion, of which about \$400,000,000 had been delivered by 1 April 1960. As a part of its reparations agreements, Japan also promised some \$500,000,000 in loans and investments. Only a small portion of this amount has been made available to date. Aside from reparations, assistance to underdeveloped countries between

1950 and 1959 amounted to \$84,000,000 in direct private investment and \$166,000,000 in long-term export credits.

Promotion of Japanese exports and of sources of raw materials supply on a commercially feasible basis has been the prime motive in extending credit. Investments are likewise approved only when prospects for a profit are good and when foreign ventures will not jeopardize Japanese exports. Many a deal has fallen through because of political instability in the recipient country, Japanese inability to gain a controlling interest in foreign ventures, or long waiting periods before projects begin to produce. However, whenever international deals do

appear financially attractive, as in the case of recent trade arrangements with the USSR, easy payment terms do not seem too difficult to arrange.

The Finance Ministry has exerted the strongest restraining influence in the Japanese Government, often over the opposition of the Foreign Ministry, which advocates more positive economic cooperation, and the Ministry of International Trade and Industry, which is more trade-promotion conscious. In the case of a recent \$50,000,000 loan to India, Finance Ministry officials were displeased when it was agreed that the Japanese Export-Import Bank would finance the entire cost of the exports. Normally the manufacturer-exporter is obliged to arrange for 30 percent of the financing through private channels.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

29 December 1960

Whereas additional credit extensions for development of iron ore mines and related rail and port facilities have brought the total credits to India to \$70,000,000, with another \$20,000,000 in prospect, only \$22,600,000 in loans have actually been approved since negotiation of the original credit in 1958. Projected Japanese plant and equipment shipments to India amounting to more than \$60,000,000 have been suspended as a result of India's dissatisfaction with the terms, which it claims are ordinary commercial terms and not "economic assistance."

The size of down payments for Japanese exports and the length of time allowed for full payment are a further issue between Japan and its customers. The Japanese Export-Import Bank, the nation's principal international lending institution, ordinarily requires substantial down payments and full payment within three to seven years. However, interest rates on foreign loans--4 percent and occasionally 4.5 percent--are considerably below prevailing domestic rates.

As for private investment, an allotment of \$55,000,000 in the government's foreign exchange budget for the last half of fiscal 1959 was reduced to \$34,000,000, presumably for lack of applications. Japanese firms generally are not interested in foreign investment because of their need for large amounts of domestic investment and working capital.

As a gesture to show interest in the problems of underdeveloped areas, Japan several years ago joined the Colombo Plan. By the end of 1959, the Japanese had contributed about \$1,250,000, dispatched 200 technicians abroad, and trained 300 in Japan. Some \$7,000,000 was also donated to Laos and Cambodia for economic development under related programs.

In 1958, an Economic Cooperation Fund of \$14,000,000 was appropriated by the Diet to finance loans normally considered too great a risk from a purely commercial point of view, but implementing legislation has not yet been passed. Japanese officials predict that this legislation will finally be enacted early next year, along with a 250-percent increase in Japan's contribution to the United Nations Special Fund to \$2,000,000.

Japan's Reason

The standard reason given by Japanese for not doing more is that Japan is a poor country which has already contributed as much as it can in the form of reparations, and that furthermore its balance-of-payments position is precarious. Statistics do not bear out this contention.

First, Japan has enjoyed a comfortable balance-of-payments position in recent years, except for 1957. By virtue of special dollar earnings from the United States, it achieved a \$460,000,000 surplus in 1958 and \$364,000,000 more in 1959. This has boosted foreign exchange reserves to an all-time high. Even after allowing for large short-term capital liabilities, Japan has an adequate cushion to fulfill its foreign exchange requirements. Foreign debt, which will be reduced this year, stood at only \$328,000,000 on 31 March 1960.

Many aid projects affect Japan's balance of payments very little. For example technical assistance--even on a large scale--costs Japan little in foreign exchange if the recipient agrees to pay local currency expenses. As for Japanese manufactured items, it has been estimated that foreign exchange outlays for the raw material component average about 30 percent of total cost. Thus, capital goods assistance

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

29 December 1960

JAPANESE GOVERNMENT FINANCES*

(Fiscal Year Ending 31 March 1960)

REVENUES	(Millions of Dollars)
Taxes on Income and Profits	\$1,864
Other Taxes	1,280
Customs Duties	227
Government Monopoly Corporation Profits	350
Receipts from Government Enterprises	47
Other Revenue	265
TOTAL	\$4,033
 EXPENDITURES	
National Defense	\$ 437
Grants to Local Governments and Shared Tax	722
Interest Payments	60
Other Current General Government Expenditures	2,090
Capital Expenditures	2,058
TOTAL	\$5,367
 **DEFICIT	\$1,334
 GROSS DEBT OUTSTANDING 31 MARCH 1960	
Domestic	\$3,149
Foreign	
Dollar	\$ 86
Sterling	145
Local Currency	105
\$	336
TOTAL	\$3,485

*General government data shown on gross basis; special accounts on net basis.

** Financed through domestic borrowing and drawings from trust funds.

01227 A

29 DECEMBER 1960

in the neighborhood of, say, \$250,000,000 would require Japan to spend only about \$75,-000,000 in foreign exchange.

The argument that Japan is "too poor" to do more abroad also has little justification. In the last four years alone, Japan's general account budget has expanded by more than a billion dollars. Even in a country where income tax evasion is rampant and collections account for only 14 percent of total revenues, the Japanese have been able to meet their capital needs without recourse to inflation.

Most of this increased budget has been spent on domestic development, education, and welfare programs. For example, while defense spending has remained virtually constant for

several years and foreign aid has been held to a minimum, land improvement and reclamation projects this year received a \$100,000,000 boost over 1959, public works expenditures are up \$155,000,000, and education and cultural expenses are up more than \$70,000,000. Veterans' pensions, not even a budgetary item six years ago, will cost \$290,000,-000 in 1960.

If spending by government pension funds, postal savings, and other special accounts, plus that of government-affiliated agencies, is added to expenditures in the general budget, the grand total of Japanese Government spending for the current year comes to over \$11 billion. Of this amount, government loans and investments will reach \$1.34 billion with an additional \$300,-000,000 in capital funds expected to be raised by public corporations under the government's loan-guaranty program.

Two developments may pose obstacles to increased Japanese foreign aid to backward countries. The first is the trade liberalization program, under which the Ikeda government hopes to abolish controls on 90 percent of Japanese imports within three years. Lifting of exchange and quota restrictions, which presently apply to over half of Japan's imports, could cause a large drain on the nation's foreign exchange reserves if imports increase too rapidly.

A second inhibiting factor is the US presidential directive of 17 November cutting back foreign expenditures. The adverse

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

29 December 1960

effect on Japan should not be serious; the American Embassy estimates that the order will result in a \$150,000,000 reduction annually. However, even

a reduction of this amount would make Japanese leaders hesitant to embark on a new foreign spending program.

25X1

25X1

* * *

25X1

SECRET

Page Denied

Next 6 Page(s) In Document Denied

SECRET

SECRET